The impact of religiosity and corruption on CSR reporting: The case of U.S. banks

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Abstract

In this paper, we provide insights into CSR disclosure strategies by bringing to the fore the important role played by contextual factors. We examine the impact of religiosity upon the instigation of voluntary CSR disclosures and the way that corruption, a trans-systemic contextual feature, moderates this relationship. We draw upon social norm and institutional theories to illuminate the mechanisms through which contextual elements give rise to management disclosure strategies. Our investigation focuses on the U.S. context, where religiosity is of increasing importance and concentrates on the U.S. banking industry, whose impacts and ramifications are global. We demonstrate that the probability of a bank issuing a standalone CSR report is positively associated with the level of adherence to religious norms, a relationship which weakens in regions characterized by high levels of corruption. The implications of our findings are important for analysts and other market participants.

Keywords: Corporate social responsibility reporting, religiosity, corruption, financial institutions.

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1 Introduction

The role that social norms, and in particular religiosity (i.e., the intensity of adherence to religious promulgations), play in influencing economic activity has long been the subject of rigorous academic discussion (for instance see Coulter, Hermans & Parker 2013; Hopkins, Shanahan & Raymond 2014; Roberts & Yamane 2012). However, it is only relatively recently that scholars have shown an interest in understanding the effects of religiosity on core corporate matters and managerial decision making, through the means of academic debates, discussions (McPhail 2011; Minton, Johnson & Liu 2019) and empirical investigations (Hilary & Hui 2009; Leventis, Dedoulis & Abdelsalam 2018). The latter has illuminated that adherence to religious norms is associated with cues and guidance which promote honesty, ethical behaviors and moral standards; thus, religious adherence is related to ethical business choices (Callen & Fang 2015; McGuire, Omer & Sharp 2012) and an increased corporate interest in socially- and environmentally-responsive policies (Angelidis & Ibrahim 2004; Harjoto & Rossi 2019). However, despite the insights offered (see also Dyreng, Mayew & Williams 2012), limited research has been conducted thus far to make sense of the relationship between religiosity and CSR reporting, which is commonly understood as a response to broader expectations of a more responsible, socially- and environmentally-conscious business attitude (Dhaliwal, Li, Tsang & Yang 2011; Grougiou, Dedoulis & Leventis 2016).

CSR activity, i.e., corporate practices that arguably improve societal well-being (Angelidis & Ibrahim 2004; Arnold & Valentin 2013; Ferrell, Harrison, Ferrell & Hair 2019; Mahoney, Thorne, Cecil & LaGore 2013), has gained great momentum in the last few decades. It is indicative that U.S. funds which prioritize CSR in their investment decisions managed about $9 trillion in assets in 2015 (www.ussif.org). Moreover, an increasing number of companies have started incorporating CSR reporting as a key component of their overall strategy (Mahoney et al. 2013). This practice has attracted significant academic interest

(Dhaliwal et al. 2011; Grougiou et al. 2016) and it has been interpreted as an administrative tool which contributes to securing broader stakeholder support (Hillenbrand, Money & Ghobadian 2013); managing diverse stakeholder pressures (Chantziaras, Dedoulis, Grougiou & Leventis 2017); legitimizing activities (Lee, Yoon & O'Donnell 2018), signaling out a firm's commitment to local communities and the environment (Mahoney et al. 2013); and attracting the interest of investors (Dhaliwal et al. 2011) and other socially-responsible parties (Patten & Zhao 2014). Researchers have also interpreted the disclosure of CSR reports as a strategy instigated by the ethical disposition of firm management and the sense of responsibility towards local societies and communities, i.e., as an integral aspect of modern business ethics (Cahan, Chen & Chen 2017; Melé & Fontrodona 2017).

Against this background, we first investigate whether the level of adherence to religious norms in a geographical area systematically affects the corporate strategic decision to issue standalone CSR reports. Second, we expand our investigation to capture whether the aforementioned relationship is conditioned by the intensity of an important contextual element, namely corruption. We assess the impact of religious norms on CSR reporting against the level of corruption for two reasons: firstly, prior literature in political science, social psychology and economics has indicated the catalytic role of corruption in affecting the weight of influence that social norms have over individual and corporate behavior (Kubbe & Engelbert 2018). In relation to our study, the impact of corruption on religious norms is expected to be significant given that it prioritizes the pursuance of private gain through unethical means (Neu, Everett, Rahaman & Martinez 2013), which is in direct contradiction with fundamental religious values and promulgations (Chase 2014; Kubbe & Engelbert 2018). Secondly, corruption constitutes an important factor to consider since it is a contextual characteristic which remains present, albeit to different extents, across geographical areas and cultures (Arghyrou 2010; Barkemeyer,

Preuss & Lee 2015; Graycar & Monaghan 2015; Grossi & Pianezzi 2018; Islam, Dissanayake, Dellaportas & Haque 2018).

In this light, we seek to make sense of whether institutional elements, which lie beyond the immediate control of managers, affect the instigation of CSR disclosures, a strategy through which firms respond to and interact with local communities and societies. Prior literature has focused mainly on the impact of formal institutions,[1] corporate governance, and corporate and industry characteristics on CSR performance and disclosure. It is only relatively recently that scholars have begun to systematically investigate the impact of informal institutions (Harjoto & Rossi 2019; Jha & Cox 2015; Krishnamurti, Shams & Velayutham 2018). Thus, we extend this stream of research and focus on important contextual features.

Our investigation focuses on the influential U.S. context, where religion remains salient[2] (Chan-Serafin, Brief & George 2013; Keller, Smith & Smith 2007); and we select the banking sector, an influential industry which is crucial for global economic stability and development, and is yet largely under-researched (Jizi, Salama, Dixon & Stratling 2014). This sector constantly remains under the social microscope of value judgments (Ferry & Lehman 2018) due to its dominant role and the social repercussions of its financial products and activities (Grougiou, Leventis, Dedoulis & Owusu-Ansah 2014); as evidenced by the case of the Lehman Brothers, Bear Sterns, the sub-prime mortgage crisis and the ensuing credit crunch (Ballantine, Kelly & Larres in press). Additionally, some banking organizations have been publicly denounced for errant attitudes, which range from gender discrimination to the financing of companies involved in "sinful" activities (i.e., pornography, abortion, gambling

[1] Formal institutions include written constitutions, laws, policies, rights and regulations enforced by official authorities. Informal institutions are (the usually unwritten) social norms, customs or traditions that shape thought and behavior (Leftwich & Sen 2010).

[2] In the U.S., there is a steady increase in religious denominations and churches, as reported in the Religious Congregations and Membership Studies, while some dogmas are becoming more politically influential (such as Evangelical Christianity) (Norris & Inglehart 2004).

and alcohol). Most organized religions are firmly against such practices (Grougiou et al. 2016; Heal 2008) and, thus, have often expressed considerable public criticism of banking institutions (Wooden 2016). Operating within adverse contexts, and being a sector of great visibility, the banking industry has invested heavily in building a socially-responsible profile. This effort includes engagement in CSR activities and reporting (Grougiou et al. 2014) and the employment of strict principles to ensure adherence to sustainable investment activities (Chih, Chih & Chen 2010). Thus, we opted to examine banks since this it is an under-researched sector which is, however, influential for the growth and stability of the global economy, its activities have broad and severe social repercussions, and it is characterized by material investments in CSR.

To investigate our research questions, we employ a sample of 214 U.S. listed banks for a 14-year estimation window (2002-2015), resulting in 1,785 firm-year observations. We find that, in religious contexts where organizational alignment with business ethics, i.e. anti-manipulative ethos, anti-opportunistic tactics and ethical judgment and morality, is highly valued by local communities, the propensity of a bank to issue CSR standalone reports significantly increases. We consider this to be the result of a two-tier mechanism at work. On one level, the prevailing community and social values concerning corporate ethics affect the attitudes of bank managers, who may then resort to instigating CSR disclosures as an act of responsiveness to social concerns and an expression of modern business ethics. On another level, by acknowledging the importance attributed to ethical values and social responsibility in geographical areas, banks may imitate other organizations' "best practices" which encounter significant challenges and resort to CSR reports to signal out alignment with endorsed corporate behaviors and, thereby, confer legitimacy upon their role. We also demonstrate that the effect of religiosity on CSR disclosures is not significant in locales where corruption is higher since repeated patterns of questionable practices tend to promote the pursuance of

private gains, eroding community values such as collectivity and the common good. The level of corruption appears to impair the influence of religious norms upon communities, and corporate management is, therefore, less incentivized to instigate CSR reporting.

The contribution of our study is twofold. First, we contribute to the current literature by synthesizing elements of the social norm and institutional theories to develop a theoretical framework which makes it possible to make sense of the impact of social norms on business activities. In particular, we draw attention to the a two-tier mechanism which, on one level, explains how management attitudes are affected by prevailing community and social values concerning corporate ethics and, on another level, how corporate institutions acknowledge the importance attributed to ethical values and social responsibility in geographical areas and resort to CSR reporting to demonstrate their adherence to endorsed corporate behaviors. Secondly, we advance an emerging branch of business research literature which seeks to make sense of the reasons underlying the employment of CSR disclosure strategies. More specifically, we extend the literature by demonstrating that informal institutions are significant drivers of CSR disclosure strategies. In this vein, we indicate the significant role of religious norms in paving the way for firm management to resort to CSR reports more intensively. Moreover, we extend current understandings by empirically showing that this relationship is bound to contextual characteristics. In this sense, we enrich current literature by illuminating the role of corruption in moderating the strength of religiosity on corporate CSR reporting.

The rest of the paper is organized as follows: In the next section, we review prior literature and develop a theoretical framework and testable hypotheses. In the third section, we explain the data-collection procedure, proxy operationalization and the empirical model. The main results are reported in the fourth section, while the fifth section presents the sensitivity tests of our results. In the sixth and final section, we conclude the study.

2 Background and Hypotheses Development

2.1 Religiosity and CSR disclosures

We employ elements of social norm and institutional theories to decode the mechanisms through which contextual influences shape organizational policies of CSR reporting. Social norm theory has significantly contributed to the development of understandings with regard to how economic attitudes are shaped and institutionalized (Akerlof 1980; Sunstein 1996). Social norms are referred to as prevailing codes of conduct which are shared by a group and constitute main driving forces and motivational mechanisms for individuals (Festré 2010). Endorsed patterns of behavior are usually enforced by sanctions and are ultimately sustained by emotions of guilt and shame, which enjoin members to forgo selfish motives for the benefit of the group (Festré 2010). Adherence to norms and peer-group expectations is associated with community approval and support, while deviant attitudes may bring about social discrimination. In the context of social norm theory, social approval and disapproval are understood as tools which facilitate the internalization of accepted attitudes and the realization of conformity as a moral obligation (Sunstein 1996).

Previous research has demonstrated that social norms play a determining role in affecting individual economic behavior (Akerlof 1980). Decision making about work effort, consumption, bargains, contracts and countless others is influenced by the broader community beliefs, expectations and endorsed patterns of attitudes (Durlauf & Blume 2008). Interestingly, it has been underscored that prevailing social norms also constitute main motivational mechanisms for market participants who, under certain circumstances, consider that overriding the profit motive is a moral duty (Sunder 2005). Social norms are also determining forces for corporate decision making (Callen & Fang 2015; Dyreng et al. 2012; Hilary & Hui 2009). Broader community beliefs and expectations are reflected in organizational policies and

attitudes, as a result of managers' operation in and interaction with local contexts and populations (McGuire et al. 2012).

Through this perspective, great importance is attributed to religious norms, due to their significant role as crucial determinants of individual and corporate attitudes (Kanagaretnam, Lobo & Wang 2015; Stavrova, Fetchenhauer & Schlösser 2013). It has been substantiated that the degree of adherence to prevailing religious promulgations is associated with individual, as well as business, preferences and corporate decision making (Iannaccone 1998; Lehrer 2004). Religious spirituality and core promulgations, including the ideas that wealth "is instrumental and should serve higher human ends" and the existence of a "relationship of mutual responsibility between human beings and nature" (Melé & Fontrodona 2017, p. 671 and 673), remain at the heart of modern business ethics. Influential religions (*inter alia*, Buddhism, Christianity, Islam and Judaism) have provided a common set of beliefs, principles, criteria, guidelines for action and set of virtues which have been associated with "good" economic attitudes (Iannaccone 1998, p. 225; Melé & Fontrodona 2017; Shah & Rankin 2017). Further, in many cases, religious groups have exerted considerable influence in order to act against and disinvest from corporations whose activities deviate from the endorsed frame of ethics.[3]

Organized religions uniformly promote an anti-manipulative ethos, are against opportunistic tactics (Callen & Fang 2015), and facilitate the development of ethical judgment (Walker, Smither & DeBode 2012) and morality (McGuire et al. 2012). Against this background, researchers have demonstrated that corporations develop more ethical business attitudes when they are headquartered in geographical areas characterized by strong religious norms (Dyreng et al. 2012). Most studies focusing on the impact of religious norms on

[3] For example, bishops urged the Church of England to disinvest from ExxonMobil (Carrington 2017). See also Sharia compliance concerning Islamic finance at: http://lexicon.ft.com/Term?term=Islamic-corporate-social-responsibility-(CSR) (Accessed 16 July, 2019).

managerial decisions substantiate that corporate headquarters are a central place where business decisions and policies are made (Pirinsky & Wang 2006; Rubin 2008). Additionally, the headquarters are where managers reside, meet and make decisions (Rubin 2008); and where information distribution and exchanges between the firm and various market participants take place (Pirinsky & Wang 2006).

Social norm literature has provided analytical insights into how and why the level of religious adherence in a geographical area may influence manager attitudes (Callen & Fang 2015; Dyreng et al. 2012; Hilary & Hui 2009). Firstly, firms tend to recruit a larger proportion of local people at all levels of the organization. Thus, firms located in counties marked by high religious adherence are likely to employ a larger proportion of religious people who may, in turn, exert influences which affect and shape management preferences and policies (Hilary & Hui 2009). Secondly, the literature underscores that employees and managers are usually attracted to specific organizations which share similar values (Holland 1976). The selection of an employer who has a congruent profile is expected to assist employees in achieving their valued outcomes (Schneider, Goldstein & Smith 1995). Finally, previous research has drawn attention to evidence that managers interact socially with local people and communities (Dyreng et al. 2012, p. 849). Thus, in areas where the level of religiosity is high, interaction facilitates familiarization with the prevailing religious beliefs and influences managers towards aligning their behavior with certain accepted patterns (Dyreng et al. 2012; McGuire et al. 2012). Managers are generally motivated to conform to the prevailing religious values for fear of being stigmatized in case of deviation since the cost of the social stigma often outweighs the potential pecuniary gains from engaging in non-endorsed activities (Callen & Fang 2015).

We additionally employ institutional theory (Suchman 1995) to shed light upon the development of certain corporate policies and strategies as a result of dominant contextual characteristics. This perspective brings to the fore the role of institutional influences in creating

the conditions for the development of common organizational practices (Carpenter & Feroz 2001; Dedoulis 2016; DiMaggio & Powell 1983). The term "mimetic isomorphism", introduced by DiMaggio & Powell (1983),[4] is central to understanding the underlying mechanism. It refers to organizations' tendency to mimic the actions of other organizations, through which common corporate practices spillover. Firms seek to "morph" with broadly-endorsed patterns in order to meet social expectations and attain, maintain and extend their social legitimacy (Carpenter & Feroz 2001).

This process is frequently at work when industries encounter significant challenges which pose a latent threat to their organizational legitimacy (Grougiou et al. 2016). Such difficulties may involve extensive scrutiny of the sector's workings by stakeholders, governments, non-governmental organizations, the media, academics and politicians (Grougiou et al. 2014). By adopting strategies which indicate the firm's adherence to the prevailing system of norms, values and beliefs, organizations exhibit their commitment to broader expectations; and by doing so, they cement their position within the social context (Suchman 1995, p. 574). Hence, by mimicking other organizations, firms may pre-emptively prioritize the deployment of communication strategies to signal out their contextual congruence; thereby creating a protective shield, i.e., an image of a responsive organization which, in some cases, may even manipulate the informational needs of local constituencies (Gray, Kouhy & Lavers 1995).

Corporate communication strategies often involve CSR, which is associated with religious social norms (Angelidis & Ibrahim 2004). This is because the very same virtues which

[4] The authors identify three mechanisms of institutional isomorphic change: coercive, mimetic and normative (DiMaggio & Powell (1983). Coercive isomorphism captures broader organizational pressures on the focal organization to behave and structure itself in a certain way; i.e., legislative context. Normative isomorphism is associated with professionalization and refers to how a cognitive base, shared orientations and organizational practices are disseminated; i.e., codes of ethics and standards of practice introduced by professional organizations. Mimetic isomorphism is considered relevant for making sense of the subject under investigation.

underlie religious promulgations (i.e., protecting human rights, the idea of the common good and the notion of mutual responsibility between humans and nature) constitute the cornerstones of CSR (Melé & Fontrodona 2017). Christians, Muslims and Jews have established the "Interfaith Centre on Corporate Responsibility" (www.iccr.org), through which action against controversial business practices can be instigated and a focus on local communities and the environment is actively encouraged (Interfaith Declaration 1994). Thus, CSR is broadly viewed as representing a well-established system of socially- and environmentally-endorsed corporate behaviors (Grougiou et al. 2016; Grougiou et al. 2014) which reflect aspects of modern business ethics (Angelidis & Ibrahim 2004). Thus, it is highly likely that, in religious areas, CSR disclosures are highly valued by a wide range of constituencies since they are interpreted as a manifestation of the integration of social and environmental expectations into corporate strategies (Doh & Guay 2006).

2.2 The case of the banking industry and religiosity

The banking sector is considered to be an important pillar of the global financial architecture (Grougiou et al. 2014). Banks contribute to the operation of businesses and the economy through their intermediating, financing and pricing activities (Scholtens 2009). However, banks' operations are often characterized by opacity and significant information asymmetries and uncertainty (Furfine 2001) as a result of complex and diverse financial instruments, products and transactions (Heilpern, Haslam & Andersson 2009). Interestingly, this industry has placed considerable emphasis on building socially-responsible profiles. Many banking institutions are included in the Dow Jones Sustainability Index (DJSI),[5] participate in groups that have established strict principles to ensure adherence to socially-responsible

[5] Membership of the DJSI is acclaimed as an indication of leadership in terms of corporate sustainability. The DJSI uses the "best-in-class" approach by selecting the top 30% of companies in a specific industry based on sustainability criteria.

investment activities (such as the Equator Principles group)[6] (Chih et al. 2010) and are active in promoting their contribution to stakeholders and the wider public (Grougiou et al. 2014).

Against this background, an understanding of the drivers of banks' CSR-disclosure strategies is of major importance. On one level, based on the social norm perspective, the level of religiosity in a geographical area influences management choices and core financial decisions. Hence, it is expected that in highly-religious areas the prevailing norms would also sway bank managers towards initiating CSR disclosures, since social and environmental responsiveness is conceived of as an integral part of the modern business ethics endorsed by most organized religions. Indeed, previous literature shows that banks which operate in more religious areas in the U.S. are characterized by lower risk taking, are less prone to bankruptcy, and are less vulnerable to crises (Adhikari & Agrawal 2016). Further, banks in more religious locales appear to be more transparent and less likely to exhibit accounting irregularities (Dyreng et al. 2012; Hilary & Hui 2009).

On the institutional level, banks' unique characteristics attract scrutiny. Banks are accountable to a wide range of salient stakeholders, *inter alia* depositors (banks' main funding source) and the government (the deposit-insurer), who have strong incentives to screen banks' sustainability, operating activities and social contribution (see Mehran, Morrison & Shapiro 2012). Moreover, publicly-traded banks are highly regulated, monitored by multiple agencies and are followed vigorously by the media and various watch-dog committees (Adhikari & Agrawal 2016).

The banking sector also attracts negative press coverage as a result of the broader effects of its operations on society. The recent sub-prime mortgage crisis and the credit crunch that

[6] Launched in 2003, the Equator Principles constitute a credit-risk management framework for determining, assessing and managing environmental and social risk in project finance transactions (http://www.equator-principles.com/index.php/about; Accessed 16 July, 2019).

followed provide evidence for this. Moreover, banks have been accused of various forms of inequity (such as gender discrimination and insider trading) and of financing operations or political regimes which cause significant environmental or social destruction (e.g., deforestation in Amazon; apartheid in South Africa) (Heal 2008). Banking organizations have also been convicted of various illegal activities, including: fake bids, rigged auctions, money laundering, tax evasion and the illegal use of confidential information (Heal 2008).

In highly-religious contexts, banks constantly remain under the social microscope of value judgments from religious groups (Jizi et al. 2014). They are frequently denounced for financing companies whose products/services are not endorsed by organized religions. For instance, the latter have publicly opposed banks which have provided funding to companies engaged in activities related to abortion, pornography, gambling and alcohol (Grougiou et al. 2016). Additionally, organized religions have expressed their concerns about the privileged treatment banks enjoy. Indicatively, Pope Francis, a very influential figure in Christianity, criticized the "scandalous sums" devoted to save banks from bankruptcy compared to the limited resources offered to the "bankruptcy of humanity" (Wooden 2016).

Operating within contexts marked by a strong adherence to religious norms, banks are expected to employ CSR reporting as an attractive communication and legitimation device. CSR disclosures constitute a proactive strategy through which to demonstrate organizational conformity to prevailing values and commitment to broadly-endorsed patterns of economic attitudes; with the goal of promoting corporate interests and cushioning the impact of criticisms (Grougiou et al. 2014). By signaling out their responsiveness to wider expectations, banking

institutions strengthen their position and build a protective shield in geographical areas characterized by high religiosity.[7] Thus, we hypothesize that:

H1: *Ceteris paribus*, religiosity increases the likelihood of a bank issuing a standalone CSR report.

2.3 Corruption, religiosity and CSR disclosures

Within the broader social norm literature, corruption (a trans-systemic phenomenon and set of practices) emerges as a catalytic external contextual element which affects individual and corporate behaviors (Zakaria 2018). Corruption constitutes an endemic feature even in contexts characterized by well-functioning systems of government and arguably-strong institutional structures (Neu et al. 2013). It is defined as the misuse of entrusted power and public office by individuals or organizations for private gain (Neu et al. 2013). Therefore, it results in a marginalization of societal needs and prioritization of individual or organizational self-rewarding goals (Arghyrou 2010) through, *inter alia*: questionable lobbying; intervention in the legislative process; blackmail and threats; unwritten agreements and conspiracies; and provision of funds and various resources to politicians, parties and other influential groups (Graycar & Monaghan 2015).

Social norm theory provides insights into how questionable practices which acquire repetitive and potentially permanent characteristics can impair the effects of religious norms. At the heart of this process is the idea that the discomfort of becoming stigmatized for violating social norms is less intense in areas where there is a frequent violation of those norms by

[7] Prior studies demonstrate that religious people are more conservative (Miller & Hoffmann 1995) and that religiosity significantly influences firms towards reporting more conservative earnings (Dyreng et al. 2012). Moreover, it has been shown that conservative individuals might not incentivize corporations regarding CSR (Ramasamy, Yeung & Au 2010), while conservative managers appear to prioritize costs for ensuring the reliability of financial reporting over costs for promoting CSR-related performance (Anagnostopoulou, Tsekrekos & Voulgaris 2019). Accordingly, since there is some early indication that conservatism is associated with less CSR performance, we cannot rule out the possibility that religiosity might be negatively associated with CSR reporting.

individuals and organizations (Lindbeck & Persson 2018). Repeated patterns of corruption exert influences and, through processes of social imitation, modeling and networking, such practices spill over, and they may be conceived of as normality (Köbis, Iragorri-Carter & Starke 2018). As a consequence, in highly-corrupt contexts, pursuing opportunistic private gains to the detriment of the collective good is highly likely to be dissociated from emotions of shame, guilt and embarrassment (Köbis et al. 2018). Thus, it is expected that, in these contexts, bank managers may be less influenced by community ethical values, and they may show less dedication to keeping up with and initiating corporate collective actions such as CSR disclosures.

Institutional theory also provides a background for understanding the influential effect of the level of corruption on corporate policy making. Operating within contexts where questionable practices emerge as established patterns of behaviors, firms may acknowledge that CSR reports might not be an efficient strategy to legitimize their organization's activities. Thus, firms may be less willing to expend effort and allocate funds for CSR disclosures when the effectiveness of this strategy is called into question. Relevant literature illuminates the high cost associated with CSR disclosures (Barnea & Rubin 2010; Grougiou et al. 2016; McWilliams & Siegel 2001). As a result, banks may realize that the high costs associated with investing in CSR reports outweigh the potential benefits of this legitimation strategy. Hence, operating in highly-corrupt areas where CSR reports are less appealing but still costly, may lead banking institutions to be less interested in instigating CSR disclosures; which may, in turn, weaken the impact of religious norms on CSR decisions. Indeed, previous research provides evidence illuminating that, when making strategic decisions, banks do take into consideration aspects of the broader context within which they operate (Jiang, John, Li & Qian 2018; Zakaria 2018). In light of the aforementioned rationales, which illuminate the importance of corruption as an external contextual factor, we hypothesize that:

H2: *Ceteris paribus*, the effect of religiosity on a bank issuing a standalone CSR report is higher in states with low corruption.

3 Research design

3.1 Data

To test our predictions, we focus on a single country (the U.S.) since religiosity is confounded with the institutional characteristics of the country (Hilary & Hui 2009). We consider the period from 2002 onwards due to prior data restrictions for standalone CSR reports and stock-market data from the Thomson Reuters ASSET4 and Orbis Bank Focus databases respectively. Following the relevant literature (i.e., Jizi et al. 2014), we only consider financial institutions which provide similar services and are subject to the same regulations and disclosure requirements; thus, we exclude credit unions, savings institutions and central reserve depositories.

We began with 297 U.S. commercial banks from the Orbis Bank Focus database, which is covered by the Kinder, Lydenberg, and Domini (KLD) Research & Analytics database. We further eliminated 4 banks with headquarters outside the U.S. by considering each bank's location as the location of its headquarters (we obtained each bank's historical headquarters addresses through its 10-K filings,[8] similar to Hasan, Hoi, Wu & Zhang (2017)), since headquarters are usually close to a firm's core business activities (Pirinsky & Wang 2006). The data requirements for control and CSR performance variables for our main model (1) necessitated removing a further 755 observations due to missing data and 52 due to missing ownership-structure data available through the Thomson Reuters Eikon database. Our final sample comprised 214 banks, which translates into 1,785 firm-years, for which we retrieved

[8] Databases tend to backfill business addresses and, thus, we obtain each firm's historical business address through its 10-K filings. We download company filings, as available through the Securities Exchange Commission FTP server, and develop a PERL script that parses state code, state name, city, and zip code.

standalone CSR reporting activity from the Thomson Reuters ASSET4, CorporateRegister.com and CSRwire databases (Dhaliwal et al. 2011).

3.2 Measuring religiosity and corruption

Following relevant studies (e.g., Callen & Fang 2015; Dyreng et al. 2012; Jiang et al. 2018), we operationalize our religiosity measure using data from the Religious Congregations and Membership Studies (RCMS), published by the Glenmary Research Center and distributed by the Association of Religion Data Archives (www.thearda.com). These data correspond to queries regarding the 285(296) U.S.-domiciled denominations listed in the Yearbook of American Churches in 2000(2010), concerning the number of churches, members and adherents per county. Out of the total denominations approached, 149(236) responded in 2000(2010), reporting a total of 141.37(150.68) million adherents across all counties. Our religiosity proxy (*REL*) captures the degree of religiosity in the county of corporate headquarters (Hilary & Hui 2009). It is defined as the number of adherents in the county over the total population of the county (Leventis et al. 2018); though, we also conduct further sensitivity tests for alternative definitions of religiosity (see section 5.1). Intuitively, the larger the fraction of religious adherents in the county, the larger the influence of religious social norms on corporations located in the county. Since the RCMS are conducted at ten-year intervals, we linearly interpolate and extrapolate county-level estimates of religiosity between 2000-2010 and 2010-2015 respectively (e.g., Dyreng et al. 2012; Hilary & Hui 2009; Jiang et al. 2018). Interpolating religiosity allows us to increase the power of our tests, as we can conduct our tests on a time series (see Hilary & Hui 2009) rather than on a single-year basis (2000 and 2010).

Similar to prior studies, we measure corruption at the state level using the number of per-capita corruption convictions of local, state and federal officials (i.e., Butler, Fauver &

Mortal 2009; Husted, Jamali & Saffar 2016). We retrieve yearly data from the U.S. Department of Justice's Public Integrity Section,[9] an agency that oversees the federal effort to combat corruption through the prosecution of elected and appointed public officials at all levels of government, and we construct a corruption measure (*CORRUPT*) as the number of cases per state over the total population of the state times one million (Butler et al. 2009). We examine the impact of corruption by employing two tests: First, we use the year median of *CORRUPT* to classify states into high/low corruption and test whether the coefficient of REL is statistically different between the two groups. Second, we test the moderating role of corruption by interacting *REL* and *CORRUPT* (*RELxCORRUPT*).

3.3 Empirical model

Following prior studies, we frame key factors that may influence a firm's decision to commit to CSR disclosure (i.e., Dhaliwal et al. 2011; Jizi et al. 2014). In order to examine the association between the probability of a bank issuing standalone CSR reports and religiosity, we employ a logistic regression using the following functional form of our model:

$$\begin{aligned}\log[\text{prob(DCSR)}/(1-\text{prob(DCSR)})] = {} & \beta_0 + \beta_1\text{REL} + \beta_2\text{PERF} + \beta_3\text{GOV} + \beta_4\text{BLOCK} \\ & + \beta_5\text{CSRDENS} + \beta_6\text{MKVAL} + \beta_7\text{AGE} + \beta_8\text{ROA} + \beta_9\text{LEV} + \beta_{10}\text{LIT} \\ & + \beta_{11}\text{GLOBAL} + \beta_{12}\text{POP} + \beta_{13}\text{MEDAGE} + \beta_{14}\text{EDUC} + \beta_{15}\text{MALEMIN} \\ & + \beta_{16}\text{URB} + \sum \text{YEAR} + \varepsilon\end{aligned} \quad \textbf{(1)}$$

The dependent variable in our model, *DCSR*, is set to 1 if the bank discloses a standalone CSR report (according to Thomson Reuters ASSET4, CorporateRegister.com and/or CSRwire databases) and 0 otherwise. The coefficient β_1 in our model captures the

[9] For more information on the Public Integrity Section, please visit: https://www.justice.gov/criminal/pin (Accessed 16 July, 2019).

impact of religiosity on CSR reporting (*REL* is calculated as described in Section 3.2). We also control for variables which, according to prior literature, are statistically related to CSR reporting (see Appendix for variable definitions).

Prior studies support that CSR reporting is positively related to CSR performance (*PERF*) (Dhaliwal et al. 2011; Grougiou et al. 2016) and strong corporate governance mechanisms *(GOV)* (Khan, Muttakin & Siddiqui 2013); while they document an inverse relationship with respect to the existence of concentrated ownership *(BLOCK)* (Harjoto & Jo 2011). We measure *PERF* by totaling the positive (strengths) and negative (concerns) indicators of six KLD categories (i.e., community, diversity, employee relations, environment, human rights and product); while we exclude the category for corporate governance which is used as a proxy for corporate governance activity (*GOV*) (Grougiou et al. 2016). We proxy block ownership (*BLOCK*) by employing the sum of block holdings with more than 5% (Harjoto & Jo 2011).

Recent studies highlight the importance of CSR engagement in areas proximal to a firm's headquarters, stimulating researchers to control for local CSR density. Following Husted et al. (2016), we operationalize local CSR density (*CSRDENS*) as the spatial distribution of CSR engagement by firms surrounding the focal firm, as determined by the location of its headquarters. This approach captures both the location and level of CSR engagement by surrounding firms. As the number of firms active in CSR engagement in the local area around the focal firm increases, or as the level of their engagement increases, local CSR density increases.[10]

[10] CSR engagement is proxied by aggregating five positive (strengths) indicators from the five KLD categories: community, diversity, employee relations, environment and human rights; while we exclude the category for corporate governance and product, similar to Husted et al. (2016). We compute CSR density using the following formula: $\mathrm{CSRDENS_i} = \sum_j \frac{\mathrm{KLDStr_{jt}}}{(1+\mathrm{d_{ij}})}$, where: *i* refers to the focal firm; *j* to all other firms at year *t*; and *d* is the distance between firm *i* and firm *j*.

Large firms are more likely to behave in a socially-responsible way, as a result of their greater public visibility and pressures emanating from a wide group of stakeholders (Brammer, Pavelin & Porter 2009); whereas older firms tend to provide more CSR disclosures (Khan et al. 2013). We capture bank size (*MKVAL*) using the natural logarithm of the market value of common equity (Dhaliwal et al. 2011), and *AGE* using the natural logarithm of the number of years since the bank's inception (Khan et al. 2013). We account for measures of financial performance (*ROA*) and leverage (*LEV*); defined as net income and total debt, respectively, both scaled by total assets (Jizi et al. 2014). Better financial performance may result in more available resources that can be invested in social-responsibility activities (Ioannou & Serafeim 2012). On the other hand, firms with high leverage may exhibit a limited ability to fund CSR reporting initiatives since they generate and retain cash to serve their debt (Barnea & Rubin 2010).

Also, firms may strategically undertake disclosure initiatives to mitigate potential litigation risk (Skinner 1997). Interestingly, prior studies have embraced this notion and report a positive relationship between CSR reporting and risk (i.e., Deegan & Gordon 1996). We, therefore, include an indicator for litigation risk (*LIT*), signaling the existence/non-existence of a major[11] legal proceeding against the firm under SEC regulation S-K §229.103 (Grougiou et al. 2016). We augment our model with an indicator variable signaling for foreign income reporting (*GLOBAL*), since previous studies document a positive relationship between corporate disclosure and a firm's global orientation (e.g., Dhaliwal et al. 2011).

We conclude our model specification by including geographic and demographic characteristics bound with religiosity. For example, Iannaccone (1998) considers gender,

[11] According to SEC §229.103, "major" constitutes: a proceeding that, exclusive of interest and costs, exceeds 10% of the current assets of the company and its subsidiaries on a consolidated basis; and/or a proceeding that refers to sanctions for environmental damages that exceed $100,000.

education, income, minority status and age as influential determinants of religious participation at the individual level. Therefore, it is crucial to moderate the influences arising from county-level demographic traits. In our model, we control for: population (*POP*) (Leventis et al. 2018); median age of residents (*MEDAGE*) (McGuire et al. 2012); fraction of adults completing four years of college or higher (*EDUC*) (Leventis et al. 2018); and the fraction of male minority population (*MALEMIN*), all expressed as natural logarithms and measured at county-level. Data for these demographic characteristics were collected yearly for the entire estimation window of the study. To ensure the cross-sectional form of our dataset, we allow for variations across the county-level variables by measuring them in the county of corporate headquarters in each year. Finally, we control for bank location, since previous literature suggests that firms closer to major cities and financial centers are more likely to engage in CSR when compared with firms located in more remote areas (Husted et al. 2016). In particular, we include an indicator variable (*URB*) that equals 1 for banks headquartered in MSAs with at least 1 million residents (as defined by the U.S. Census (Leventis et al. 2018)), and 0 otherwise. To alleviate any concerns for unobserved effects, we incorporate year indicators in all our estimations to control for potential year effects (Dhaliwal et al. 2011) and we additionally sensitivity test for both county and year indicators to control for potential year and geographical effects at county level.

4 Empirical findings

4.1 Univariate analysis

Table 1 presents the descriptive statistics of our sample, where we winsorize all continuous model variables at the 1st and 99th percentiles of their respective distributions to reduce the effect of outliers. The mean of the dependent variable is 0.106, implying that around 10% of our sample banks issue standalone CSR reports, and is comparable to the figures reported by relevant studies (i.e., Lu, Shailer & Yu 2017). The mean(median) of *REL* is

0.512(0.521) and is very close to the values reported in prior studies (e.g., Dyreng et al. 2012). Our sample banks exhibit modest CSR performance and governance activity, as the mean values of *PERF* and *GOV* are 0.534 and 0.127, respectively; while block holders control approximately 19% of total shares outstanding. The means of *ROA* and *LEV* are 1.004 and 0.041, respectively, similar to prior studies (e.g., Jizi et al. 2014). The average bank age is 32 years, while approximately 13% of banks have been involved in major litigation (*LIT*) and report non-zero foreign income (*GLOBAL*); all of which are comparable to Dhaliwal et al. (2011). With regards to the differences in the values of *CSRDENS* with those reported in Husted et al. (2016), these may be attributable to our focus on a single industry and our extended sample period (the authors cover the years 1998-2009).

[Insert Table 1 about here]

4.2 Multivariate analysis

The results of the logistic regressions are summarized in Table 2, where we empirically test our expectations. We examine the impact of religiosity on CSR reporting in Column 1 and in Column 5 (where we further control for the per-capita corruption at state level - *CORRUPT*), while Columns 2-4 and 6 present the results on the moderating role of corruption. All regression models are significant (as Wald χ^2 p<.001) and adequately fit the data (Hosmer-Lemeshow χ^2 p>0.10 and the area under the ROC curve exceeds 0.90), while they exhibit explanatory powers that exceed 53.4%. The values of the VIFs are all lower than the conservative cut-off value of 5 (Studenmund 2016), implying no multicollinearity.

[Insert Table 2 about here]

Drawing upon Column 1 in Table 2, the coefficient of *REL* is positive and statistically significant at 1% (Column 1, β=4.251, z-stat=3.61), suggesting that a bank's propensity to issue a standalone CSR report increases with the level of religiosity in the local community. With

respect to the regression coefficients of the control variables, our findings support the negative impact of ownership concentration on CSR engagement, since the negative and statistically significant coefficient of *BLOCK* indicates that higher levels of block ownership discourage CSR (Jain & Jamali 2016). We further demonstrate that a bank's propensity to disclose standalone CSR reports increases with firm size and age (see also Brammer et al. 2009); while the positive coefficient of *LIT* corroborates the notion that companies with higher litigation risk may strategically undertake CSR initiatives to mitigate reputational or other costs and preempt potential future lawsuits (Skinner 1997). Finally, we observe that the propensity for CSR disclosure is related to the location of headquarters since disclosures increase when firms are located in denser areas (*URB*). We find that CSR reporting is stronger in more CSR-proactive locales (Husted et al. 2016) which provides further validation of our main argument that CSR reporting is determined by social expectations and isomorphism[12]. Overall, our results support prior literature as regards the determinants of CSR disclosures and suggest that previously-developed CSR reporting models (e.g., Dhaliwal et al. 2011) should pay additional attention to external factors such as social norms, and in particular the intensity of religious adherence.

To test the role of corruption, we divide our sample states into high/low corruption (see Columns 2-4 in Table 2), using the sample's median of *CORRUPT* for each year. In accordance with our expectations, the coefficient of *REL* is statistically significant at 1% for banks located in less-corrupt states (Column 2, β=8.341, *z*-stat=3.40), while it is statistically insignificant for banks located in the highly-corrupt states. Our results indicate that lower levels of state corruption are associated with a greater influence of religiosity on CSR reporting activity. We also test for homogeneity in the pairwise-estimated coefficients across models (using a Wald

[12] We thank the anonymous reviewer for this suggestion.

test in Column 4), where we observe that the difference in the coefficients of *REL* is statistically significant at 1% across subsamples.

We repeat the above analysis and further test the moderating role of corruption by including *CORRUPT* as a control variable (Column 5 in Table 2) and, most importantly, including the interaction term between *REL and CORRUPT* in the main model (Column 6 in Table 2). In line with our expectations and previously reported findings *RELxCORRUPT* is negative and statistically significant at 5% (β=-0.484, z-stat=2.24), suggesting that higher levels of corruption moderate the positive impact of religiosity on CSR reporting activity. Figure 1 describes how high levels of corruption are associated with low levels of religious adherence, which then moderates the positive effect of religiosity on CSR reporting engagement. In this plot, we mean-center[13] *REL* and *CORRUPT* to ease the interpretation of the interaction term (e.g., Burks et al. 2019; Dawson 2014).

[Insert Figure 1 about here]

5 Sensitivity testing

5.1 Alternative measure of religiosity

Given that there are various ways to measure religiosity (Hood, Hill & Spilka 2009), we create alternative proxies of religiosity by drawing upon data from the Pew Research Center[14] (similar to Leventis et al. 2018). We rely on the Religious Landscape Survey,[15] which

[13] Burks, Randolph & Seida (2019, p. 72) argue that mean-centering the constituents of the interaction term does not change the coefficient on the interaction effect; rather, it enables the researcher to "*meaningfully interpret*" the main effect.

[14] For more information on the Pew Forum, please visit: http://www.pewresearch.org/fact-tank/2016/02/29/how-religious-is-your-state/ (Accessed 16 July, 2019).

[15] The Pew Research Center's Religious Landscape Studies are telephone surveys conducted from May 8 to August 13, 2007 and from June 4 to September 30, 2014. The survey was conducted by Abt SRBI, Princeton Survey Research Associates International (PSRAI) and Social Science Research Solutions (SSRS), between which the data collection was equally divided. All results are weighted to correct known demographic discrepancies.

was conducted in the summer of 2007(2014) and employs a representative sample of 35,957(35,071) adults at state level. Respondents to these surveys provided answers on: (a) the importance of religion in their lives; (b) the frequency of attendance at worship services; (c) the frequency of prayer; and (d) the absolute certainty of belief in God.[16] After deriving data on these four questions, we linearly interpolate them to fill in the missing years (2008-2013), similar to our main religiosity proxy (see Section 3.2). Next, we rank states (in descending order, so that a higher rank indicates more positive answers) and create our alternative measures of religiosity, namely: importance of religion (*IMPR*); worship attendance frequency (*WORR*); frequency of prayer (*FRPR*); and belief in God (*BELR*). We further create a comprehensive measure of the aforementioned ranks using a first principal component analysis for each year (*RELRFPC*).

We conduct additional analyses for the period from 2007 to 2014 using the five alternative specifications of our main religiosity proxy. The coefficients of the alternative religiosity measures are positive and fulfill all conventional levels of statistical significance; with *IMPR*, *BELR* and *RELRFPC* being statistically significant at 1% and *WORR* and *FRPR* being statistically significant at 5%. Overall, our results appear to be robust for alternative specifications of religiosity and are supportive of our hypothesis, since they suggest that religiosity increases a bank's propensity to engage in CSR reporting through issuing standalone CSR reports.

[16] The questions capturing the four dimensions of religiosity are: (a) "How important is religion in your life? Very important, somewhat important, not too important, or not at all important?"; (b) "Aside from weddings and funerals, how often do you attend religious services? More than once a week, once a week, once or twice a month, a few times a year, seldom, or never?"; (c) "People practice their religion in different ways. Outside of attending religious services, do you pray: several times a day, once a day, a few times a week, once a week, a few times a month, seldom, or never?"; and (d) "Do you believe in God or a universal spirit?". For further details, please visit http://assets.pewresearch.org/wp-content/uploads/sites/11/2016/10/25142557/RLS-II-Questionnaire-for-5th-release.pdf (Accessed 16 July, 2019).

5.2 Alternative measures of CSR disclosure

For thoroughness reasons, we employ three alternative specifications for CSR disclosures in addition to our CSR disclosure proxy (*DCSR*). Firstly, we employ an indicator for the CSR report being compliant with GRI standards (*GRI_COMP*).[17] Secondly, we use a binary variable capturing first-time CSR reporters (*DCSR_FIRST*) (Dhaliwal et al. 2011). Thirdly, we use the actual number of CSR reports (*NR_DCSR*) issued by the company in year t. We perform a logistic regression using *GRI_COMP* and *DCSR_FIRST* as dependent variables and an ordered logistic regression using *NR_DCSR*. Through this process, we obtain results qualitatively similar to those based on *DCSR*, since the coefficient of *REL* remains positive and statistically significant at 1%.

5.3 Alternative measures of CSR performance

We test for alternative measures of CSR performance by treating the "strengths" (*PERF_Str*) and the "concerns" (*PERF_Con*) data as separate sets, similar to Grougiou et al. (2016). We also test for an alternative definition of CSR performance, as presented in Dhaliwal et al. (2011). We create an indicator *CRO* that equals 1 if a firm was on the "100 Best Corporate Citizens" list (by Corporate Responsibility Officer) in year t, and 0 otherwise (Dhaliwal et al. 2011). When we rerun the regressions employing these proxies, our inferences remain unchanged.

5.4 Alternative sampling and modelling

To verify the validity of our main results, we rerun our analyses to ensure that they are not dependent on the interpolation of the main dependent variables (McGuire et al. 2012). Thus, we limit the sample to 2010 for the most recent RMCS data; and to both 2007 and 2014 for the

[17] We collected data on the GRI compliance of CSR reports through two sources: a) the Thomson Reuters EIKON database, and b) the Sustainability Disclosure Database.

Religious Landscape Survey data. Although religiosity measures are positive, and levels of statistical significance remain unaffected for the Religious Landscape Survey data, statistical significance for the RMCS data drops to 5%. We also conduct additional tests and adopt a lead-lag approach, similar to Dhaliwal et al. (2011). We do so to address potential endogeneity and self-selection issues related to CSR disclosure and religiosity. Running our analyses and employing lagged values for all control variables does not change our inferences. Further, we rerun our analysis using county and year effects to control for potential timing and geographical effects. However, our inferences remain unchanged.

5.5 Variable omission

We repeat our analysis employing various factors that have been found or suggested (explicitly or implicitly) to be influential to CSR reporting, but were omitted from our main model due to data and/or specification reasons. First, we repeat our tests employing alternative size measures, namely: 1) the natural logarithm of total assets (Khan et al. 2013); 2) the natural logarithm of sales/revenues (Grougiou et al. 2016); and 3) the natural logarithm of number of employees (Lau, Lu & Liang 2016). All three size measures attract positive and highly significant coefficients, while our inferences remain unchanged. Second, we replace our performance measure, namely *ROA*, with the ratio of net income over net assets (*ROE*) (Grougiou et al. 2016). Although our inferences remain unaffected, and the coefficient of *ROE* retains the same direction with *ROA*, the statistical significance of *ROE* rises to the 1% level. Third, considering that stable firms with lower risk are more prone to engage in CSR activities (Ioannou & Serafeim 2012), we incorporate two measures for future growth opportunities, namely: *TOBINQ*, defined as the market value of common equity plus the book value of preferred stock, book value of long-term debt and current liabilities, scaled by the book value of total assets (Dhaliwal et al. 2011); and the market-to-book ratio (*MB*) (Grougiou et al. 2016). Both coefficients are statistically insignificant, while the coefficient of *REL* remains positive

and statistically significant at 1%. We also control for market risk using *BETA*, since CSR may represent managerial effort to influence stakeholder perceptions of firm risk (Jizi et al. 2014). Once again, the significance of the coefficients of our main dependent variables remains unchanged.

We further test the robustness of our results and control for the following variables. First, we consider bank visibility (Ioannou & Serafeim 2012) and incorporate the number of analysts following the stock (*ANALYST*) and the natural logarithm of one plus the number of analysts (*LnANALYST*). Second, we incorporate a variable capturing the quality of the legal system (*JDQ*) (Ioannou & Serafeim 2012), operationalized as the overall state rankings reported in the State Liabilities Rankings Study, which was conducted for the U.S. Chamber of Commerce (2002). Third, we include the social capital at county level where the bank is headquartered (Jha & Cox 2015), constructed as per Rupasingha & Goetz (2008). Fourth, we augment our model with an indicator variable that equals 1 if the Republican Party won the most recent presidential elections at state level (*REPUB_ST*), to control for any effect due to political affiliation (Di Giuli & Kostovetsky 2014). The inclusion of the aforementioned control variables does not alter our inferences, as the coefficient of *REL* remains positive and statistically significant at 1%.

We further consider alternative measures of ownership structure, since prior literature suggests that CSR engagement and reporting differ in relation to levels of concentrated and institutional ownership (Höllerer 2013). Therefore, we operationalize concentrated ownership using an indicator (*CONC_OWN25*) for shareholders having at least a 25% stake of total firm shares (Höllerer 2013); in addition, we offer an alternative cutoff point of a 20% stake of total firm shares. Our results corroborate the notion that ownership concentration discourages CSR engagement, since both coefficients attain a negative sign and statistical significance at 10% and 5% respectively, while our other inferences remain unchanged. We also control for the

percentage of shares owned by insider (*INSID*) and institutional investors (*INST*) (Grougiou et al. 2016) but fail to establish any relationship with standalone CSR reporting. We also test whether the financial crisis affects the association between *REL* and CSR reporting. Employing multiple tests for crisis and post-crisis eras, *REL* remains highly significant while other inferences do not change. Interestingly, we do find that banks increase their CSR reporting during and after the crisis, potentially to legitimize themselves and to follow social expectations.

Finally, we re-estimate our analysis using additional demographic characteristics which were excluded from our main model either due to availability at state- rather than county-level or due to being highly correlated with the variables in our model. Specifically, we control for: marriage rates in the state (*MAR*); and the natural logarithm of the average per-capita county income at county level (*INC*)[18] (Hilary & Hui 2009; Iannaccone 1998). We obtain state-level marriage rates from the Center of Disease Control[19] (Dyreng et al. 2012), and per-capita income figures from the Bureau of Economic Analysis. Finally, we include an indicator (*UAGG*) for bank headquarters located in one of the following MSAs: New York City, Los Angeles, Chicago, Washington, Baltimore, San Francisco, Philadelphia, Boston, Detroit, Dallas, and Houston (Dyreng et al. 2012; Leventis et al. 2018). Including the aforementioned variables separately in our model does not affect our inferences.

6 Conclusion

In this paper, we investigate whether an important feature of the institutional context, namely religiosity, affects CSR disclosure strategies and whether this relationship is mitigated

[18] For instance, per-capita income is highly and significantly correlated with *EDUC*, with a correlated coefficient of 0.83. Thus, we repeat our analyses including *INC* in our model and exclude *EDUC*.

[19] For more information on the Center of Disease Control please visit: https://www.cdc.gov/nchs/nvss/marriage-divorce.htm (Accessed 16 July, 2019).

by corruption. We find that the level of religiosity is positively associated with banks' CSR-reporting practices, a result that becomes more resilient in less-corrupt locales.

In light of social norm and institutional theories, we argue that, in areas where adherence to religious norms is strong, a two-tier mechanism is at work. On one level, as a result of their social and professional interaction with individuals and institutions, bank managers become familiarized with and internalize prevailing beliefs and values. This process facilitates the development of certain understandings that bring about an alignment of management attitudes and corporate policies with endorsed patterns of behaviors. Hence, the deployment of voluntary CSR reporting, which is interpreted as an expression of modern business ethics, enables bank managers to demonstrate their respect for the common good and collectivity, both of which are highly valued by local communities.

On another level, highly-religious contexts give rise to additional challenges for bank management, whose activities and operations become subject to scrutiny by a wide range of social constituencies, including religious groups. The emphasis placed upon ethical values in these geographical areas may lead bank managers, who might not necessarily share such values, to resort to CSR reporting in order to promote an image of organizational responsiveness to broader expectations. This strategy creates a protective shield, lessens the possibility of organizational stigmatization and, at the same time, confers legitimacy upon banks, strengthening their position in highly-religious local communities.

In addition, we argue that the effect of religiosity on the instigation of CSR reporting becomes less significant in highly-corrupt locales. In geographical areas where the pursuance of opportunistic private gains is prioritized over values such as the common good and collectivity, questionable practices may acquire a repetitive character through imitation and social modeling, and patterns of corrupt behaviors are highly likely to be conceived of as

normality. In such contexts, messages contradictory to religious norms are signaled out and create a backdrop against which bank managers may consider it less important to keep up with social and environmental values; thus, they may be reluctant to devote valuable resources to instigate CSR reports, since their legitimation appeal would be limited.

The contribution of our study is two-fold. First, we contribute to extant literature by providing a theoretical backdrop for making sense of the impact of social norms on business activities. More specifically, we illuminate the two-tier mechanism at work on the individual and institutional level which lead banking institutes to the employment of CSR reporting. Secondly, we contribute to the literature by drawing attention to religious social norms as an important informal institution, which enhances the initiation of CSR reporting at the banking industry level. We additionally expand current understandings by elucidating the role of corruption as a statistically-significant moderator of the impact of religiosity on CSR reporting. Analysts and market participants should be aware that the initiation of CSR reporting may be a strategy dependent on the prevailing norms and idiosyncrasies of local societies as shown by our findings regarding religiosity and corruption; this should therefore be factored into their analyses.

We note some limitations which, however, may inspire future research. Our data is limited to U.S. listed banks and so is geographically bound. Researchers could employ cross-country datasets in order to achieve results which could be broadly applicable. Moreover, future research could expand the sectorial scope of our investigation. Additionally, it would be interesting to know what tangible benefits are enjoyed by U.S. banks issuing CSR reports in religious contexts. Relevant areas for such an investigation might include corporate image, labor relations, media exposure and the cost of capital. While we have followed an established method for measuring CSR disclosure by employing standalone CSR reports, we acknowledge that there are alternative channels through which companies disclose relevant information, such

as 10-K filings, annual reports, firm websites, media and public announcements. These are not captured by our data. Future studies could, therefore, extend our findings by considering the examination of alternative CSR communication channels. There is only very limited research on the effect of conservatism on CSR performance and on how this association or/and the effect of conservatism alone might be an influential mechanism that moderates the impact of religiosity on CSR reporting. This effect might be different in locales with different social norms, culture and formal institutions. We suggest that this area is an important avenue for further research. Finally, current understandings of CSR-reporting practices in religious and corrupt locales could be further enriched by employing behavioral and organizational frameworks, and by employing alternative research methods such as in-depth interviews and projective techniques to shed light upon the two-tier mechanism and its importance.

Appendix - variable definitions

Variable	Definition
Dependent variable:	
DCSR	Indicator variable that equals 1 if bank discloses a CSR report (according to Thomson Reuters ASSET4, CorporateRegister.com and CSRwire databases) and 0 otherwise.
Main independent variables:	
REL	Number of adherents in the county in which the bank is headquartered (as reported by the 2000 and 2010 RCMS studies), divided by the county population as per the U.S. census. (Source: Association of Religion Data Archives (ARDA)).
CORRUPT	The ratio of the total number of convictions of local, state and federal officials over the total population of the state times one million. (Source: U.S. Department of Justice's Public Integrity Section).
Firm-level variables:	
PERF	Measure of social performance defined as the total positive (strengths) and negative (concerns) of six CSR rating categories: community, diversity, employee relations, environment, human rights and product. (Source: KLD).
GOV	Corporate governance performance defined as the total positive (strengths) and negative (concerns) of the corporate governance CSR rating category. (Source: KLD).
BLOCK	Percentage of shares owned by shareholders with at least a 5% stake. (Source: Thomson Reuters Eikon).
CSRDENS	Localized density of firms engaging in CSR activities across the U.S., as per Husted et al. (2016).
MKVAL	Natural log of market value of equity at year-end. (Source: Orbis Bank Focus).
AGE	Natural log of the number of years since the bank's inception. (Source: Orbis Bank Focus).
ROA	Return on assets, measured as net income to total assets at year-end. (Source: Orbis Bank Focus).
LEV	Leverage ratio, measured as total debt to total assets at year-end. (Source: Thomson Reuters Eikon).
LIT	Indicator variable that equals 1 if the bank is named as defendant in a lawsuit, 0 otherwise. (Source: Audit Analytics).
GLOBAL	Indicator variable that equals 1 if the bank reports non-zero foreign income and 0 otherwise. (Source: Thomson Reuters Eikon).
Demographic & geographic variables:	
POP	Natural logarithm of the population size of a county. (Source: U.S. Census Bureau).
MEDAGE	Natural logarithm of the median age of the residents in a county. (Source: U.S. Census Bureau).
EDUC	Natural logarithm of the fraction of adults completing four years of college or higher in a county. (Source: U.S. Census Bureau).
MALEMIN	Natural logarithm of the fraction of male minority population in a county. (Source: U.S. Census Bureau).
URB	Indicator variable that equals 1 if bank's headquarters reside in metropolitan statistical areas (MSAs) with at least 1 million residents (as defined by the U.S. census) and 0 otherwise.

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Table 1 Descriptive statistics.

Variable	N	Min	25th	Mean	Median	75th	Max	StDev
DCSR	1,785	0	0	0.106	0	0	1	0.308
REL	1,785	0.249	0.414	0.512	0.521	0.6	0.957	0.122
PERF	1,785	-5	-1	0.534	0	1	14	2.044
GOV	1,785	-3	0	0.127	0	1	1	0.758
BLOCK	1,785	0	8.48	18.74	16.9	25.863	89.953	14.573
CSRDENS	1,785	1.119	3.71	13.905	5.987	13.342	182.298	22.266
MKVAL	1,785	3.375	5.994	7.172	6.814	7.893	12.401	1.656
AGE	1,785	1.099	2.89	3.239	3.258	3.611	5.352	0.682
ROA	1,785	-2.778	0.745	1.004	1.01	1.283	14.176	0.834
LEV	1,785	0	0.01	0.041	0.02	0.041	0.467	0.06
LIT	1,785	0	0	0.137	0	0	1	0.344
GLOBAL	1,785	0	0	0.131	0	0	1	0.338
POP	1,785	10.146	12.073	13.025	13.274	13.849	16.135	1.342
MEDAGE	1,785	3.347	3.573	3.627	3.622	3.679	3.965	0.091
EDUC	1,785	2.514	3.262	3.468	3.462	3.73	4.192	0.354
MALEMIN	1,785	0.943	2.539	2.956	3.148	3.496	4.22	0.72
URB	1,785	0	0	0.294	0	1	1	0.456
CORRUPT	1,785	0	1.878	3.305	2.811	4.118	26.386	2.293

Note: All numbers are rounded to the third decimal place. Variables are described in the Appendix.

Table 2 CSR reporting, religiosity, the impact of religiosity in states with above/below the sample year median of per-capita convictions of local, state and federal officials, and the joint effect of religiosity and corruption (Dependent variable = DCSR) – logit analysis.

Variables	(1)	(2) High Corruption States	(3) Low Corruption States	(4) Diff Coef	(5) Control for Corruption	(6) Interaction with Corruption
REL	4.251***	0.030	8.341***	-8.311***	4.061***	5.897***
	(3.61)	(0.01)	(3.40)	(6.755)	(3.40)	(3.58)
CORRUPT	.	.	.	.	0.059	0.312***
					(1.15)	(3.03)
RELxCORRUPT	.	.	.	.	.	-0.484**
						(-2.24)
PERF	0.075	0.065	0.124	-0.059	0.072	0.072
	(1.42)	(0.78)	(1.62)	(0.272)	(1.35)	(1.36)
GOV	-0.150	0.250	-0.393	0.643*	-0.155	-0.133
	(-0.90)	(1.07)	(-1.45)	(3.237)	(-0.93)	(-0.80)
BLOCK	-0.032***	-0.042**	-0.016	-0.026	-0.032***	-0.032***
	(-3.52)	(-2.32)	(-1.21)	(1.318)	(-3.50)	(-3.52)
CSRDENS	0.034***	0.003	0.065***	-0.062***	0.033***	0.034***
	(5.38)	(0.17)	(6.04)	(9.96)	(5.27)	(5.33)
MKVAL	0.864***	1.240***	1.421***	-0.181	0.873***	0.875***
	(5.66)	(5.28)	(6.88)	(0.337)	(5.75)	(5.73)
AGE	0.574***	0.766***	-0.057	0.823**	0.581***	0.571***
	(3.41)	(2.74)	(-0.23)	(4.875)	(3.43)	(3.39)
ROA	-0.260	-0.589***	0.155	-0.743***	-0.269	-0.251
	(-0.78)	(-2.61)	(1.04)	(7.588)	(-0.80)	(-0.80)
LEV	-0.656	0.331	-6.422***	6.753**	-0.583	-0.654
	(-0.43)	(0.16)	(-2.99)	(5.178)	(-0.38)	(-0.43)
LIT	0.526**	0.374	0.173	0.2	0.493*	0.505*
	(2.04)	(0.88)	(0.35)	(0.096)	(1.91)	(1.95)
GLOBAL	0.563*	1.306***	0.198	1.107	0.588**	0.592**
	(1.89)	(2.72)	(0.42)	(2.695)	(1.96)	(1.99)
POP	0.188**	0.089	-0.331**	0.42	0.205**	0.187*
	(2.07)	(0.43)	(-1.99)	(2.495)	(2.08)	(1.91)
MEDAGE	0.140	-0.105	-3.606	3.501	0.053	0.166
	(0.09)	(-0.04)	(-1.46)	(1.02)	(0.03)	(0.11)
EDUC	-1.959***	2.606**	-5.496***	8.102***	-1.845***	-1.923***
	(-2.85)	(2.39)	(-5.99)	(32.39)	(-2.61)	(-2.69)
MALEMIN	-0.109	-0.438	0.565*	-1.002**	-0.156	-0.047
	(-0.63)	(-1.39)	(1.76)	(4.971)	(-0.85)	(-0.25)
URB	0.682***	0.859**	1.162***	-0.304	0.708***	0.733***
	(2.97)	(1.97)	(2.75)	(0.251)	(3.05)	(3.15)
(intercept)	-11.801*	-25.981**	13.600	.	-12.148*	-13.359**
	(-1.80)	(-2.48)	(1.51)		(-1.85)	(-2.01)
Year effects	Included	Included	Included	.	Included	Included
Wald χ^2	283.953	184.054	196.573	.	288.247	293.156
Pseudo R^2	0.534	0.618	0.609	.	0.534	0.536
Hosmer-Lemeshow χ^2	10.961	8.056	2.636	.	9.303	11.303
Area under the ROC curve	0.947	0.965	0.966	.	0.947	0.947
Mean VIF	1.630	1.634	1.779	.	1.621	3.431
Observations	1,785	971	814	.	1,785	1,785

Note: Standard errors are corrected using the Huber-White procedure and z-statistics are presented in parentheses. Values with asterisks *, ** and *** indicate significance at the 10%, 5%, and 1% levels respectively (2-tailed). All numbers are rounded to the third decimal place. The Column 4 reports the t-statistics for the Wald tests used to compare difference in coefficients between regression results of Columns 2 and 3. Variables are described in the Appendix.

Figure 1 Interaction effect of religiosity and corruption on CSR reporting